

Arcada Township
Gratiot County, Michigan
Annual Financial Statements
and
Auditors' Report
March 31, 2008

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Arcada Township
List of Elected and Appointed Officials
March 31, 2008

Township Board

Douglas Merchant – Supervisor

Barbara Prikasky – Treasurer

Alfred Silhavy – Clerk

Gordon Aurand – Trustee

Keith Flegel – Trustee

Independent Auditors' Report

To the Members of the Township Board
Arcada Township
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Arcada Township as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Arcada Township as of March 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

August 28, 2008
Alma, Michigan

Arcada Township
Management's Discussion and Analysis
For the Year Ended March 31, 2008

Our discussion and analysis of Arcada Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2008.

Total net assets related to the Township's governmental activities are \$907,405. The amount that is unrestricted is \$902,466. The total net assets related to the Township's business-type activities are \$244,727, of which \$134,679 is unrestricted.

State shared revenues are our largest revenue source. In light of continuing state budget problems, and constant threats to take away all revenue sharing, the Township has reacted by invoking tighter controls over all expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Arcada Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Arcada Township
Management's Discussion and Analysis
For the Year Ended March 31, 2008

Arcada Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2008.

Table 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets	\$ 933,411	\$ 135,939	\$ 1,069,350
Capital assets, net	<u>4,939</u>	<u>110,048</u>	<u>114,987</u>
Total Assets	<u>938,350</u>	<u>245,987</u>	<u>1,184,337</u>
Current liabilities	<u>30,945</u>	<u>1,260</u>	<u>32,205</u>
Total net assets	<u>\$ 907,405</u>	<u>\$ 244,727</u>	<u>\$ 1,152,132</u>

Arcada Township's net assets of governmental activities are \$907,405, of which \$902,466 is classified as unrestricted and the remaining \$4,939 is invested in capital assets. Arcada Township's net assets of business-type activities are \$244,727, of which \$134,679 is classified as unrestricted and the remaining \$110,048 is invested in capital assets.

Arcada Township
Management's Discussion and Analysis
For the Year Ended March 31, 2008

The following table shows, in a condensed format, the statement of activities as of March 31, 2008.

Table 2

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenue			
Program revenue			
Charges for services	\$ -	\$ 28,123	\$ 28,123
General revenue:			
Property taxes	122,271	-	122,271
State-shared revenue	120,506	-	120,506
Unrestricted investment earnings	29,787	5,717	35,504
Miscellaneous	3,159	-	3,159
	<u>275,723</u>	<u>33,840</u>	<u>309,563</u>
Program expenses			
General government	97,058	-	97,058
Public safety	45,569	-	45,569
Public works	87,732	-	87,732
Health and welfare	7,385	-	7,385
Community and economic development	9,026	-	9,026
Sewer	-	42,995	42,995
	<u>246,770</u>	<u>42,995</u>	<u>289,765</u>
Change in net assets	<u>\$ 28,953</u>	<u>\$ (9,155)</u>	<u>\$ 19,798</u>

**Arcada Township
Management's Discussion and Analysis
For the Year Ended March 31, 2008**

Governmental Activities

Arcada Township's total governmental activity revenues were \$275,723 and total business-type revenues were \$33,840. There was a slight decrease in State-shared revenue. Unrestricted investment earnings decreased in the current year for governmental activities and increased in the current year for business-type activities.

Governmental activity expenditures of \$246,770 and business-type expenses of \$42,995 were recorded for the year. This included an increase in road maintenance expense for governmental activity expenditures. To offset this, the Township closely monitored its spending in all other areas.

Arcada Township's Funds

The fund financial statements provide detailed information about the most significant funds, not Arcada Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as show accountability for certain activities.

a) General Fund

Functions relating to the general governmental activities of the Township, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increase in fund balance of \$587 in the current year.

b) Special Revenue

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Arcada Township
Management's Discussion and Analysis
For the Year Ended March 31, 2008**

General Fund Budgetary Highlights

Over the course of the year, the Township Board monitors and amends the budget to account for unanticipated events during the year. State revenue is slightly decreasing, but expenses are increasing. Arcada Township continues to budget carefully and monitor all expenditures to keep the budget in line with revenue.

Capital Assets

At March 31, 2008, Arcada Township has \$583,909 invested in a wide range of capital assets, including land, buildings, machinery and equipment, and a sewer system. The total amount of accumulated depreciation as of March 31, 2008 was \$468,922. The net capital asset balances at the end of the fiscal year are \$4,939 in the governmental funds and \$110,048 in the business-type funds.

Economic Factors and Next Year's Budgets and Rates

Arcada Township's budget for next year calls for a 2.3% increase on property tax rates. The Township set the budget slightly higher than last year and the board feels the budget is below what operating revenue should be. However, the Township needs to continue to monitor its budget very closely as State revenue-sharing payments have the potential to decrease due to State cutbacks and less sales tax receipts at the State level. Other revenues appear to be staying level.

Despite these concerns, the Township will continue to operate as efficiently as possible in the next fiscal year.

Contacting Arcada Townships Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of Arcada Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township Board.

Arcada Township
Statement of Net Assets
March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 874,844	\$ 113,916	\$ 988,760
Receivables			
Taxes	6,417	-	6,417
Customers	-	6,997	6,997
Accrued interest and other	16,378	-	16,378
Investments	-	15,026	15,026
Due from other units of government	27,183	-	27,183
Prepaid items	8,589	-	8,589
Non-depreciable capital assets	3,000	-	3,000
Depreciable capital assets, net	1,939	110,048	111,987
 Total assets	 938,350	 245,987	 1,184,337
Liabilities			
Accounts payable	\$ 5,980	\$ -	\$ 5,980
Accrued and other liabilities	24,965	1,260	26,225
 Total liabilities	 30,945	 1,260	 32,205
Net Assets			
Invested in capital assets	4,939	110,048	114,987
Unrestricted	902,466	134,679	1,037,145
 Total net assets	 \$ 907,405	 \$ 244,727	 \$ 1,152,132

See Accompanying Notes to Financial Statements

Arcada Township
Statement of Activities
For the Year Ended March 31, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 97,058	\$ -	\$ -	\$ -	\$ (97,058)	\$ -	\$ (97,058)
Public safety	45,569	-	-	-	(45,569)	-	(45,569)
Public works	87,732	-	-	-	(87,732)	-	(87,732)
Health and welfare	7,385	-	-	-	(7,385)	-	(7,385)
Community and economic development	<u>9,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,026)</u>	<u>-</u>	<u>(9,026)</u>
Total governmental activities	<u>246,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246,770)</u>	<u>-</u>	<u>(246,770)</u>
Business-type activities							
Sewer	<u>42,995</u>	<u>28,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,872)</u>	<u>(14,872)</u>
Total primary government	<u>\$ 289,765</u>	<u>\$ 28,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(246,770)</u>	<u>(14,872)</u>	<u>(261,642)</u>
General revenues							
Property taxes					122,271	-	122,271
State shared revenue					120,506	-	120,506
Unrestricted investment earnings					29,787	5,717	35,504
Miscellaneous					<u>3,159</u>	<u>-</u>	<u>3,159</u>
Total general revenues					<u>275,723</u>	<u>5,717</u>	<u>281,440</u>
Change in net assets					28,953	(9,155)	19,798
Net assets - beginning of year					<u>878,452</u>	<u>253,882</u>	<u>1,132,334</u>
Net assets - end of year					<u>\$ 907,405</u>	<u>\$ 244,727</u>	<u>\$ 1,152,132</u>

See Accompanying Notes to Financial Statements

**Arcada Township
Governmental Funds
Balance Sheet
March 31, 2008**

		Special Revenue Fund	
	General	Fire	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 691,361	\$ 183,483	\$ 874,844
Receivables			
Taxes	2,880	3,537	6,417
Accrued interest and other	9,066	7,597	16,663
Due from other units of government	27,183	-	27,183
Due from other funds	-	14,546	14,546
Prepaid items	6,610	1,979	8,589
Total assets	<u>\$ 737,100</u>	<u>\$ 211,142</u>	<u>\$ 948,242</u>
Liabilities			
Accounts payable	\$ 5,980	\$ -	\$ 5,980
Accrued and other liabilities	24,965	-	24,965
Due to other funds	14,831	-	14,831
Deferred revenue	5,244	-	5,244
Total liabilities	<u>51,020</u>	<u>-</u>	<u>51,020</u>
Fund Balances			
Reserved for:			
Prepaid items	6,610	1,979	8,589
Unreserved, reported in:			
General fund	679,470	-	679,470
Special revenue funds	-	209,163	209,163
Total fund balances	<u>686,080</u>	<u>211,142</u>	<u>897,222</u>
Total liabilities and fund balances	<u>\$ 737,100</u>	<u>\$ 211,142</u>	<u>\$ 948,242</u>

See Accompanying Notes to Financial Statements

**Arcada Township
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
March 31, 2008**

Total fund balances for governmental funds	\$ 897,222
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,939
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	<u>5,244</u>
Net assets of governmental activities	<u>\$ 907,405</u>

See Accompanying Notes to Financial Statements

Arcada Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2008

		Special Revenue Fund	
	General	Fire	Total Governmental Funds
Revenues			
Taxes	\$ 59,497	\$ 62,774	\$ 122,271
Licenses and permits	2,420	-	2,420
State revenue sharing	120,506	-	120,506
Interest income	18,270	8,676	26,946
Other revenue	739	-	739
Total revenues	<u>201,432</u>	<u>71,450</u>	<u>272,882</u>
Expenditures			
Current			
General government	92,745	-	92,745
Public safety	-	45,569	45,569
Public works	87,732	-	87,732
Health and Welfare	7,385	-	7,385
Community and economic development	8,728	-	8,728
Other functions	4,255	-	4,255
Total expenditures	<u>200,845</u>	<u>45,569</u>	<u>246,414</u>
Net change in fund balance	587	25,881	26,468
Fund balance - beginning of year	<u>685,493</u>	<u>185,261</u>	<u>870,754</u>
Fund balance - end of year	<u>\$ 686,080</u>	<u>\$ 211,142</u>	<u>\$ 897,222</u>

See Accompanying Notes to Financial Statements

Arcada Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2008

Net change in fund balances - Total governmental funds	\$ 26,468
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(356)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Other revenue	<u>2,841</u>
Change in net assets of governmental activities	<u>\$ 28,953</u>

**Arcada Township
Proprietary Funds
Statement of Net Assets
March 31, 2008**

	<u>Enterprise Fund</u>
	<u>Sewer</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 113,916
Receivables	
Customers	6,712
Investments	15,026
Due from other funds	<u>285</u>
Total current assets	<u>135,939</u>
Noncurrent assets	
Capital assets, net	<u>110,048</u>
Total noncurrent assets	<u>110,048</u>
Total assets	<u>245,987</u>
Liabilities	
Current liabilities	
Accrued and other liabilities	<u>1,260</u>
Net Assets	
Invested in capital assets	110,048
Unrestricted	<u>134,679</u>
Total net assets	<u>\$ 244,727</u>

See Accompanying Notes to Financial Statements

Arcada Township
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended March 31, 2008

	<u>Enterprise Fund</u>
	<u>Sewer</u>
Operating revenue	
Customer fees	\$ 28,123
Operating expenses	
Personnel services	1,260
Contractual services	26,155
Utilities	1,118
Other expenses	706
Depreciation	<u>13,756</u>
Total operating expenses	<u>42,995</u>
Operating loss	<u>(14,872)</u>
Nonoperating revenue	
Interest income	<u>5,717</u>
Change in net assets	(9,155)
Net assets - beginning of year	<u>253,882</u>
Net assets - end of year	<u>\$ 244,727</u>

See Accompanying Notes to Financial Statements

**Arcada Township
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2008**

	Business-type Activities - <u>Enterprise Fund</u>
	<u>Sewer</u>
Cash flows from operating activities	
Receipts from customers	\$ 28,123
Payments to suppliers	(27,979)
Payments to employees	<u>(1,260)</u>
Net cash used by operating activities	<u>(1,116)</u>
Cash flows from investing activities	
Proceeds from sales and maturities of investments	196
Interest received	<u>5,717</u>
Net cash provided by investing activities	<u>5,913</u>
Net change in cash and cash equivalents	4,797
Cash and cash equivalents - beginning of year	<u>109,119</u>
Cash and cash equivalents - end of year	<u>\$ 113,916</u>
Reconciliation of operating income loss to net cash provided by operating activities	
Operating loss	\$ (14,872)
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	<u>13,756</u>
Net cash used by operating activities	<u>\$ (1,116)</u>

See Accompanying Notes to Financial Statements

Arcada Township
Notes to Financial Statements
March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Arcada Township is governed by an elected five-member Board. The accompanying financial statements present the government.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Joint Venture

The Township is a member of the Rural Urban Fire Control Board, which is a joint venture between the City of Alma, Arcada Township, Pine River Township, Seville Township and Sumner Township. The Board provides fire protection and suppression services in the Fire District by inspecting and maintaining standard safety, rescue, and disaster response. The membership of the Board is composed of six members. The Township is represented by the Supervisor. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The fire fighting equipment is owned jointly by the Board. The City of Alma provides day-to-day management oversight of this joint venture.

The financial activities of the Rural Urban Fire Control Board are reported in the City of Alma's financial statements as a special revenue fund.

The following is summary financial information for the Rural Urban Fire Control Board as of June 30, 2007 (latest available audited financial statements).

Total assets	\$ 205,711
Total liabilities	<u>16,152</u>
Fund balance	<u>\$ 189,559</u>
Total revenues	\$ 443,895
Total expenditures	<u>391,526</u>
Net increase in fund balance	<u>\$ 52,369</u>

Arcada Township
Notes to Financial Statements
March 31, 2008

The Township's share of fixed assets is \$72,554. Complete financial statements of the Rural Urban Fire Control Board can be obtained by writing:

City of Alma
P.O. Box 278
Alma, Michigan 48801

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for property taxes and other revenue that is restricted for providing fire protection.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Arcada Township
Notes to Financial Statements
March 31, 2008

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The property tax levy runs from January 1st to December 31st on the taxable valuation of property as of the preceding December 31st. Property taxes become a lien on the last day of the levy year and are due on or before February 14th with the final collection date of February 28th. Real property taxes uncollected as of February 28th are purchased by the County of Gratiot and remitted to the Township. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

The 2007 taxable valuation of the government totaled \$47,928,829, on which ad valorem taxes consisted of 0.9436 mills for operating purposes and 1.3108 mills for fire protection purposes. This resulted in \$45,221 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Arcada Township
Notes to Financial Statements
March 31, 2008

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

Comparative data

Comparative data is not included in the government's financial statements.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 49., *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause government-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

Arcada Township
Notes to Financial Statements
March 31, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

At the first Township Board meeting in April, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing April 1st. Public hearings are held to obtain taxpayer comments and the budget is legally adopted by a majority vote of the Township Board.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Budget appropriations lapse at the end of each fiscal year.

Excess of expenditures over appropriations

During the year ended March 31, 2008, the Township incurred expenditures in the General Fund in excess of the amount appropriated as follows:

<u>Fund</u>	<u>Total</u> <u>Appropriation</u>	<u>Amount</u> <u>Expended</u>	<u>Unfavorable</u> <u>Variance</u>
General Fund			
General government	\$ 92,127	\$ 92,745	\$ 618
Public works	87,575	87,732	157

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash</u> <u>Equivalents</u>
Governmental activities	\$ 874,844
Business-type activities	<u>113,916</u>
Total	<u>\$ 988,760</u>

The breakdown between deposits and investments is as follows:

	<u>Primary</u> <u>Government</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 973,734
Investments in securities, mutual funds and similar vehicles	<u>15,026</u>
	<u>\$ 988,760</u>

Arcada Township
Notes to Financial Statements
March 31, 2008

As of year end, the government had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Federal Home Loan Mortgage Corp Medium Term Note	\$ 14,999	3/15/2015	AAA/Aaa	Fitch Ratings/Moody's Investor Services
GNMA Guaranteed Pass Through Certificate	<u>27</u>	6/15/2008	AAA	GSC
	<u>\$ 15,026</u>			

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may

not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$603,968 was exposed to custodial credit risk because it was uninsured and uncollateralized .

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government's investment policy, the government's investments are held by a counterparty and are not insured.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Other revenue	<u>\$ 5,244</u>

Arcada Township
Notes to Financial Statements
March 31, 2008

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Capital assets being depreciated				
Buildings, additions and improvements	24,000	-	-	24,000
Machinery and equipment	6,669	-	-	6,669
Total capital assets being depreciated	30,669	-	-	30,669
Less accumulated depreciation for				
Buildings, additions and improvements	24,000	-	-	24,000
Machinery and equipment	4,374	356	-	4,730
Total accumulated depreciation	28,374	356	-	28,730
Net capital assets being depreciated	2,295	(356)	-	1,939
Governmental activities capital assets, net	\$ 5,295	\$ (356)	\$ -	\$ 4,939
Business-type activities				
Capital assets being depreciated				
Sewer system	\$ 550,240	\$ -	\$ -	\$ 550,240
Less accumulated depreciation for				
Sewer system	426,436	13,756	-	440,192
Net capital assets being depreciated	123,804	(13,756)	-	110,048
Business-type capital assets, net	\$ 123,804	\$ (13,756)	\$ -	\$ 110,048

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 356
Business-type activities	
Sewer	13,756
Total primary government	<u>\$ 14,112</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
Fire Fund	General Fund	\$ 14,546
Sewer Fund	General Fund	285
		<u>\$ 14,831</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

NOTE 7 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees.

Arcada Township
Notes to Financial Statements
March 31, 2008

The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined contribution pension plan

The Township has a defined contribution pension plan covering all elected officials and the zoning officer. The Township contributes 5% - 10% of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2008 was \$4,529. Beyond the required defined contribution, the Township is not liable for any future obligations of the pension plan that cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Arcada Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes				
Property taxes	\$ 43,000	\$ 43,000	\$ 45,302	\$ 2,302
Other taxes	-	-	5,714	5,714
Administration fee	10,000	10,000	8,481	(1,519)
Licenses and permits	2,200	2,200	2,420	220
State revenue sharing	118,000	118,000	120,506	2,506
Interest income	13,800	13,800	18,270	4,470
Other revenue	-	-	739	739
Total revenues	<u>187,000</u>	<u>187,000</u>	<u>201,432</u>	<u>14,432</u>
Expenditures				
General government				
Township board	31,480	37,377	44,136	6,759
Supervisor	11,640	11,640	12,185	545
Clerk	12,420	12,420	11,424	(996)
Board of review	1,080	1,080	904	(176)
Treasurer	12,420	12,420	11,707	(713)
Assessor	7,900	7,900	6,252	(1,648)
Elections	1,000	2,390	-	(2,390)
Buildings and grounds	4,500	4,500	3,120	(1,380)
Cemetery	<u>2,400</u>	<u>2,400</u>	<u>3,017</u>	<u>617</u>
Total general government	<u>84,840</u>	<u>92,127</u>	<u>92,745</u>	<u>618</u>
Public works				
Drains	10,000	10,000	10,158	158
Highways, streets and bridges	<u>70,000</u>	<u>77,575</u>	<u>77,574</u>	<u>(1)</u>
Total public works	<u>80,000</u>	<u>87,575</u>	<u>87,732</u>	<u>157</u>

Arcada Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Health and welfare				
Ambulance	\$ 10,000	\$ 10,000	\$ 7,385	\$ (2,615)
Community and economic development				
Planning	4,200	4,200	3,056	(1,144)
Zoning	5,880	5,880	5,672	(208)
Total community and economic development	10,080	10,080	8,728	(1,352)
Other functions				
Insurance and bonds	5,000	5,146	4,255	(891)
Transfers out	10,000	10,000	-	(10,000)
Total expenditures	199,920	214,928	200,845	(14,083)
Excess (deficiency) of revenues over expenditures	(12,920)	(27,928)	587	28,515
Fund balance - beginning of year	685,493	685,493	685,493	-
Fund balance - end of year	\$ 672,573	\$ 657,565	\$ 686,080	\$ 28,515

Arcada Township
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 60,000	\$ 60,000	\$ 62,774	\$ 2,774
Interest income	-	-	8,676	8,676
Total revenues	60,000	60,000	71,450	11,450
Expenditures				
Current				
Public safety	49,000	49,000	45,569	(3,431)
Excess of revenues over expenditures	11,000	11,000	25,881	14,881
Fund balance - beginning of year	185,261	185,261	185,261	-
Fund balance - end of year	\$ 196,261	\$ 196,261	\$ 211,142	\$ 14,881



7810 N. Alger Road
Alma, MI 48801
(989) 463-6108 / (800) 466-6168
Fax (989) 463-8560

August 28, 2008

Township Board
Arcada Township

We have completed our audit of the financial statements of Arcada Township as of and for the year ended March 31, 2008 and have issued our report dated August 28, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Communication of Internal Control Matters Identified During the Audit

II Auditor's Communication of Significant Matters with Those Charged with Governance

III Management Comments

We discussed these matters with various personnel in the organization during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Township Board, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Yeo & Yeo, P.C.
Alma, Michigan

Appendix I

Communication of Internal Control Matters Identified During an Audit

In planning and performing our audit of the financial statements of Arcada Township as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Arcada Township internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

SEGREGATION OF DUTIES FOR THE TAX ACCOUNT

During inquiry with township employees regarding internal control procedures for cash disbursements, it was noted that the Treasurer conducts all activity in the tax account including writing all checks, signing and mailing the checks, and doing the bank reconciliation. We suggest that the Clerk sign and mail the tax account checks. We also recommend that the Clerk or a board member receive and review the unopened bank statements before passing them along to the Treasurer for reconciliation. This will increase the segregation of duties in the tax account.

Appendix II
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated April 3, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters in the engagement letter.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in Note 1 of the financial statements. No new policies were adopted during the current year, and there were no changes to existing policies. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties in dealing with management during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix III Management Comments

In planning and performing our audit of the financial statements of Arcada Township as of and for the year ended March 31, 2008, we considered Arcada Township internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of one matter that is an opportunity for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated August 28, 2008, on the financial statements of Arcada Township. Our comments and recommendations regarding this matter are as follows:

ACCOUNTING POLICY AND PROCEDURES MANUAL

Arcada Township's employees maintain segregation of duties as much as possible with limited staff, however, no written established policies or procedures were available.

We suggest the Township document policies and procedures relating to accounting record keeping and financial decision making. The Michigan Department of Treasury's Local Government Audit and Finance Division has a manual titled *Uniform Accounting Procedures Manual* available to assist local units of government in preparation of such written procedures.

In addition, the Michigan Townships Association has information available to assist Officials in preparing and adopting policies and procedures for the Township.